



Emerging Markets Strategy

Key Takeaways

- ▶ Emerging markets delivered strong absolute returns, outperforming developed markets due to AI and technology momentum in key Asian markets.
- ▶ The Strategy outperformed the benchmark, supported by strong contributions from our holdings in China, Taiwan and South Korea, which offset weakness in India.
- ▶ Equity performance improvements in EM year to date have been more company specific than broad based. Investor flows into the asset class have not picked up significantly, which we believe represents a potential coiled spring. Should investors begin to feel that they are missing out on attractive EM valuations and returns, positive flows could become a tailwind.

Market and Performance Overview

Emerging markets were up 10.6% in the third quarter of 2025 as measured by the MSCI Emerging Markets Index, outpacing developed markets. One of the strongest regions was China, which rose 20.4% spurred by excitement around artificial intelligence (AI) opportunities and increasing investor interest due to the market's valuation. Taiwan advanced 14.3% and Korea climbed 12.7%, driven by AI demand, with Taiwan being a key manufacturer of semiconductors for AI workloads and Korea a key supplier of memory products.

India was the worst performer of the major EM markets, down 7.6%, mainly due to a rotation into other regions as well as a subdued consumer backdrop. Weakness was seen in the Indian financials and technology sector, which fell 10.5% and 16% respectively – the latter being impacted by H-1B visa changes. Indonesia was down 3.1%, hurt by continued political uncertainty and tight liquidity as the country seeks to promote growth but protect the currency.

From a sector standpoint, materials was the top performer in the index, up 24% as gold prices have boosted mining shares. Tech-related sectors also outperformed the overall market, led by communication services, consumer discretionary and information technology (IT), which are indexed to AI or Internet services. Most cyclical sectors underperformed, with the greatest weakness among energy and financials, while consumer staples and utilities were also laggards.

The ClearBridge Emerging Markets Strategy outperformed its MSCI Emerging Markets benchmark during the third quarter, supported by strong stock selection in China, Taiwan and South Korea that offset negative allocation effects in China and India.

Contributions in China were led by Tencent and Contemporary Amperex Technology (CATL). One of the largest positions in the portfolio, Tencent delivered strong operating results and benefited from positive sentiment toward China as the largest Chinese name in the index. CATL also rose on improving investor sentiment in China, as well as its leadership role as a battery supplier due to strong electric vehicle and energy storage system demand. EV growth has reaccelerated in Europe and CATL has taken market share, while EV penetration continues to increase in China. Alibaba continues to attract interest due to its leading cloud and AI capabilities, and the positive sentiment change toward the China market. The company announced an increase in AI investment and a new large language model (LLM).

The critical roles of Taiwan's Delta Electronics and South Korea's Samsung Electronics in supporting AI development lifted share prices for those stocks. A supplier of power and cooling systems, Delta currently has a leading market share in data centre buildouts and rose on forecasts that its leadership would continue. Delta's AI exposure has led to significant earnings upgrades as the market has started to quantify the demand for its products. Memory supplier Samsung also benefited from the strong AI demand, particularly the high demand for memory in AI applications and tight supply in conventional DRAM semiconductor memory.

On the materials side, U.K.-listed copper miner Antofagasta, which operates in Chile, also performed well as supplies tightened due to a mine shutdown by a competitor. Copper continues to be a beneficiary of surging electrification demand.

Most headwinds during the quarter emanated from India. HDFC Bank and ICICI Bank, two of the portfolio's larger positions, failed to keep pace due to weak Indian market performance. HDFC has broadly been delivering in line with expectations; we expect that, having improved its deposit base, HDFC can reaccelerate growth. ICICI has been delivering solid operational fundamentals but has suffered a valuation de-rating. Jewelry and watch retailer Titan delivered strong growth in its quarterly results, but a soft consumer backdrop in India and higher gold prices had some negative impact on demand. The company continues to outperform other Indian consumer businesses in terms of growth. Multi-industry conglomerate Reliance Industries has also been pressured by weak sentiment toward the Indian market, which is awaiting potential upcoming IPOs for Reliance's telecom and retail divisions.

Latin America e-commerce platform MercadoLibre has faced growing pressures in its key markets of Argentina and Brazil. Upcoming Argentine elections and uncertainty around the extent that the U.S. is willing to support the Argentine peso has contributed to the stock's decline. In Brazil, there are signs online retailer Amazon.com may increase the level of competitive intensity. While MercadoLibre could see near-term earnings headwinds, we believe the impact is manageable over the long term.

China Merchants Bank suffered from a rotation out of financials as well as the effects of a still-tepid Chinese economy. Given the close connection between the top-line growth of Chinese financials and the underlying economic growth within the county it serves, revenue delivery has been subdued.

Portfolio Positioning

The Strategy made three new purchases in the period while closing out three other positions. New addition Sieyuan Electric is a Chinese manufacturer of power transmission and distribution equipment. Sieyuan looks set to grow at a healthy rate for the foreseeable future via continued grid investment in China, domestic market share gains and overseas expansion. We think the compounding of this growth is underestimated by the market.

South Korea's HD Hyundai Electric offers participation in increasing long-term global power equipment demand within a supply constrained market. This is likely to be a multiyear up cycle with U.S. demand outstripping supply, particularly as Chinese supply is essentially restricted. Hyundai Electric has a healthy backlog, which should drive consistently high revenue growth and margin expansion over the next few years.

Dino Polska is a rapidly growing food retailer in Poland with a differentiated business model focused on providing convenience and discounts to generally underserved communities. Dino Polska has been delivering high returns on investment as organic expansion has seen the business take market share and become a national player; the runway for growth remains significant given the low penetration rates of stores in many regions. With the valuation back to levels in line with history, the upside opportunity is through compounding of strong earnings growth.

The Strategy's largest sale was Chinese e-commerce provider Meituan, whose core business operations are under significant competitive threat from Alibaba and JD.com. While its food delivery business has staved off multiple competitors over the years, we believe this time is different given the strengths of Meituan's e-commerce competitors' core businesses. Both Alibaba and JD are in a position to treat food delivery and quick commerce as a cost of doing business on the retail side, casting significant doubt over the long-term unit economics in the industry. While Meituan may still

emerge as the long-term market leader, our current exposure across all three players provides too much portfolio risk, and we believe Alibaba and JD are more insulated by their broader business lineup.

We also exited Indonesia’s Bank Negara. Having improved its asset quality, the next phase of return on equity improvement for the bank hinges on net interest margins (NIM). This is looking difficult as liquidity and deposit competition in Indonesia look fierce going forward. Notably, the company has no loan growth lever to pull to help NIM, as it is a state-owned enterprise.

Brazilian dental plan provider Odontoprev is a high-quality business but with the company’s growth outlook looking limited to single digits, we decided to exit the stock given more attractive opportunities in the region and sector.

Outlook

We firmly believe that the long-term investment outlook for EM remains robust, and we maintain strong confidence in our portfolio holdings. Looking ahead, we are particularly excited by the powerful synergy of technology adoption, urbanisation and services sector growth prevalent in EM. We anticipate that our highly selective, stock-focused Strategy will thrive by identifying companies with high returns on equity operating in structurally growing sectors. Furthermore, the current environment — with its regulatory pressures, geopolitical conflicts and ever-evolving macroeconomic landscape — highlights the importance of focusing on strong sustainability and governance characteristics as well as sustainable growth as critical factors in determining which companies will remain relevant and lead the way in the long run.

Exhibit 1: China — Valuation Opportunity Remains Compelling



Source: FactSet. Data as of 6 October 2025.

As we progress toward 2026, we think the key drivers of EM returns, and thus the biggest opportunities, will be in technology, and, on a regional level, in India and China. Technology companies in EM are

core to the global adoption of AI, and the longer-term structural growth opportunity of EM technology is broader than in developed markets. This should place EM well to succeed in the next 12 months and beyond. With its high-quality, sustainable growth companies, India, though weak so far this year, should return to the strength it saw in 2024 as the market returns to recognising fundamentals in share prices. Finally, as the largest country in the asset class, China will continue to play a key role and we believe its recovery has only just begun.

It is also worth noting that equity performance improvements in EM year to date have been more company specific than broad based. Investor flows into the asset class have not picked up significantly, which we believe represents a potential coiled spring. Emerging markets continue to trade at a valuation discount to developed markets. Should investors begin to feel that they are missing out on attractive EM returns, positive flows could become a tailwind.

Portfolio Highlights

The ClearBridge Emerging Market Strategy outperformed its MSCI Emerging Markets benchmark in the third quarter. On an absolute basis, the Strategy produced gains across five of the nine sectors in which it was invested (out of 11 total). The primary contributors were IT, communication services and consumer discretionary while the main detractors were energy, financials and consumer staples.

Relative to the benchmark, overall stock selection contributed to performance. In particular, selection in the industrials, communication services and IT sectors and an overweight to IT aided results. Conversely, selection in consumer discretionary, health care, financials, energy and consumer staples, an underweight to materials and an overweight to financials detracted from performance.

On a regional basis, stock selection in China, Taiwan and South Korea contributed to performance while stock selection in South Africa and an overweight to India proved detrimental.

On an individual stock basis, the leading contributors to relative performance were Delta Electronics, CATL, Tencent, Samsung Electronics and Alibaba. The primary detractors were HDFC Bank, ICICI Bank, China Merchants Bank, Titan and Reliance Industries.

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- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Accordingly, investment in emerging markets is generally characterised by higher levels of risk than investment in fully developed markets.
- The strategy may invest in derivatives index futures and FX forwards to obtain, increase or reduce exposure to underlying assets. The use of derivatives may result in greater fluctuations of returns due to the value of the derivative not moving in line with the underlying asset. Certain types of derivatives can be difficult to purchase or sell in certain market conditions.

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